

# Retirement Benefits

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### EMPLOYER RESPONSIBILITIES

1. Encourage the member to review the KTRS SUMMARY PLAN DESCRIPTION (See KTRS web site [www.ktrs.org](http://www.ktrs.org)) for a general knowledge of their retirement program.
2. Answer any questions they may have and refer issues that you cannot answer to the KTRS Member Services Division.
3. Encourage young employees to think ahead, even though retirement is usually far from their top priority. It is never too early to plan for retirement.
4. Advise your employees to carefully review their Annual Statement of Retirement Account before retirement and to notify the KTRS of any apparent errors.
5. Encourage members to participate in a KTRS pre-retirement seminar within three to five years before expected retirement.
6. Advise members to attend a KTRS retirement group meeting about one year before retirement.
7. Advise members to either visit the KTRS web site [www.ktrs.org](http://www.ktrs.org) or call KTRS at (800)-618-1687 to obtain an estimate of their retirement benefits

### TYPES OF RETIREMENT BENEFITS

KTRS provides two types of retirement benefits. They are an **unreduced benefit** and a **reduced benefit**. A member must be vested in order to qualify for either benefit. A member is considered as vested upon earning 5 years of Kentucky service credit. The retirement benefit is paid on a monthly basis.

#### UNREDUCED BENEFIT

A member qualifies for an unreduced benefit one of two ways:

- (1) Member has earned 27 years of Kentucky retirement service credit, regardless of age.
- (2) Member has earned 5 years of Kentucky retirement service credit and attained the age of 60.

#### REDUCED BENEFIT

A member qualifies for a reduced benefit if the member has earned at least 5 years of Kentucky retirement service credit **and** attained the age of 55. The reduction rate is the lesser of either 5% for each year the member's age is less than 60 or 5% for each year the member's total service credit is less than 27 years.

Regardless of the retirement benefit received, the retirement date is always effective the first day of the month. To be eligible to receive a monthly retirement benefit from KTRS, a member must terminate KTRS-covered employment and file a retirement application prior to the first of the month for which the retirement is to be effective. **However, a July 1 retiree must have their retirement application filed by June 1.**

## **RECIPROCAL SERVICE**

**(KRS 161.600)** Members who have service in more than one public retirement system in Kentucky may qualify for additional retirement and survivor benefits by selecting a reciprocal retirement. The Kentucky Revised Statutes allows members to use service credit in each system to the maximum advantage.

Reciprocity offers the following advantages:

- ♦ Service credit in any of the reciprocal systems may be used to meet service qualification requirements for a pension.
- ♦ The highest final average salary earned is used by each of the reciprocal systems to calculate the retirement benefit. This practice usually results in a higher benefit.
- ♦ Members may reinstate refunded service at a reciprocal system once they have established one year of service credit at another reciprocal system.

## **RETIREMENT APPLICATION**

The retirement application may only be obtained from the KTRS office in Frankfort. A member may request the application in writing, by telephone, or by contacting the KTRS website at [www.ktrs.org](http://www.ktrs.org). The application will be mailed to the member's listed address within 7 to 10 business days from receipt of the request by the KTRS office.

Upon receipt of the retirement application, the member is responsible for completing Sections I through VI. The employer is responsible for completing Sections VII and VIII. **No application should be completed by an employer prior to Sections I through VI being completed by the member.** A copy of the application and detailed instructions for completion are located at the end of this chapter.

**Please note: Members should contact KTRS at least 6 months before their expected retirement date to determine that all required documentation (social security cards, birth certificates, marriage certificates) is complete.**

## **BENEFITS**

Upon approval of the member's retirement application, they will receive their monthly benefit. The first annuity payment should reach the member within approximately 30 days after receipt of all the completed forms and any payments owed KTRS. Payments are mailed from KTRS near the end of each month. A schedule showing the annuity payment dates is sent to retirees with their final acknowledgement letter and each January thereafter. This information is also on the KTRS web site.

The benefit amount is based on the retirement service credit earned, the retirement option selected, and the average of the highest 3 or 5 years salaries earned. Each July 1, KTRS provides the member with an annual increase of 1.5%. The increase is prorated for members who retire on a date other than July 1 based on the number of months the member has been retired in the fiscal year.

## **DIRECT DEPOSIT**

Retired members, beneficiaries, and members receiving disability benefits **are required** to have annuity payments electronically deposited into an account with their bank or financial institution. Members authorize direct deposit of their annuity payments by completing Section 4 of the retirement application.

## **MAILING ADDRESS**

All KTRS members and annuitants should keep a current home address on file with KTRS so that correspondence and tax information can be mailed to their homes, even if they take advantage of the direct deposit arrangement. A change of address should bear the member or annuitant's Social Security number and be received by KTRS before the 10th of the month in order to reflect the change on the next annuity payment.

Changes to members' direct deposit information must be received by the 15th of the month for a change to be effective at the end of the month.

## **TAXES**

Federal income taxes are required to be paid immediately upon retirement on the portion of the retirement benefit that has been tax-sheltered. If a member made contributions to their retirement account prior to August 1982 or made personal payments, they may exclude a small portion of their retirement benefit from taxation over their expected lifetime or that of their beneficiary. KTRS will withhold federal taxes on the taxable portion of the retirement benefit.

The retirement benefit is subject to Kentucky income taxes, but not all retirees will be affected. Under current statutes, the years of employment after January 1, 1998, are divided by the total years of service credit earned. This percentage is the portion of the retirement benefit subject to Kentucky income taxes. However, the amount must exceed a certain dollar figure before income taxes will be paid. This dollar figure increases yearly. Refer to Kentucky Form 740, Schedule P, and Kentucky Revenue Cabinet's web site ([www.revenue.state.ky.us](http://www.revenue.state.ky.us)) for additional information.

All members receiving benefits from KTRS receive a 1099R, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRS Payments. This statement shows the member's total benefits received, taxes withheld, and taxable income for the preceding year. This statement also reports information regarding the member's Kentucky Taxable Income.

## **OPTIONS**

Selecting a retirement option is an important decision requiring careful study regarding future financial commitments. KTRS is available to members to assist them in making the best decision based on their individual needs.

### **Option I – Straight Life Annuity with Refundable Balance**

The Straight Life Annuity (SLA) provides maximum benefits over the lifetime of the member with annuity payments ceasing upon death. If, at death, the total monthly payments are less than the account balance at retirement, a lump sum settlement will be made to the estate or the beneficiary provided there are no dependents to be supported.

If a member marries or remarries after retirement, they may change their annuity to a Joint-Survivor annuity. A copy of the marriage certificate must accompany the application for this option. The effective date for this annuity will be the first month following receipt of the application at KTRS. This type of annuity pays less monthly but will continue to be paid to the spouse after the death of the member.

### **Option II – Ten Year Certain and Life Thereafter**

This option guarantees that either the member or the beneficiary will receive a monthly annuity for the first 10 years of the member's retirement. If the member survives the 10 years, they will receive the same annuity for life but the beneficiary will receive nothing after the member's death.

This option is useful for the member whose health at retirement is expected to reduce their life expectancy. If the beneficiary predeceases the member before the 10-year period expires, the member may name another beneficiary.

### **Option III – Joint-Survivor Annuity**

This option provides payments for two full lives. Both the member's and the beneficiary's ages are taken into account. The annuity paid will be less than that of the SLA so that the beneficiary, at the time of the member's death, will be provided with a lifetime annuity equal to the member's annuity. Joint-Survivor is useful when the member feels that the beneficiary will still need two incomes to maintain their same lifestyle after the member's death.

In the event of divorce, annulment, or the dissolution of marriage, the member may return to the SLA plan. The return to the SLA plan must be done within 60 days of the divorce. If the beneficiary predeceases the member, the member will continue to receive the same reduced annuity.

### **Option III (a) – Joint-Survivor Annuity with "Pop-Up" Option**

This option extends the benefit of Option III. Should the beneficiary predecease the member, the member's annuity will increase to the SLA amount. The change in annuity will take effect the first of the month after the beneficiary's death. If the member remarries after the death of the beneficiary, they may select another option (within 60 days of the date of marriage) to provide for the new spouse. The annuity will then be adjusted according to the plan chosen.

### **Option IV – Joint-Survivor Annuity One-Half Benefit to Beneficiary**

Just like the Joint-Survivor Annuity, members elect a reduced lifetime annuity to provide a lifetime annuity for their beneficiary upon their death. The reduction is not as much as the Joint-Survivor Annuity because the beneficiary only receives one-half of the member's annuity at the time of their death.

**Option IV (a) – Joint-Survivor Annuity One-Half Benefit to Beneficiary with “Pop-Up” Option**

This option extends the benefit of Option IV. Should the beneficiary predecease the member, the member's annuity will increase to the SLA amount. The change in annuity will take effect the first of the month after the beneficiary's death. If the member remarries after the death of the beneficiary, they may select another option (within 60 days of the date of marriage) to provide for the new spouse. The annuity will then be adjusted according to the plan chosen.

**INSTRUCTIONS FOR COMPLETING SECTION VII  
OF THE RETIREMENT APPLICATION**

This section provides KTRS the salary breakdowns for the three previous fiscal years. The information in this section is used for monitoring a member's salary increases per KRS 161.220 (9) and (10). You are not providing KTRS with the salaries to be used in the retirement calculation, as the members believe. The following numbered items correspond to the numbers in the blanks on the copy of the retirement application included with this chapter.

1. The fiscal year for the information provided.
2. The rank held by the member. Agencies and universities: Please put position held.
3. The years of service on the salary schedule on which the individual is being paid.
4. The date a member's raise in salary is effective. This will not be used by local school districts.
5. The member's salary as listed on the salary schedule for their rank and experience.
6. The number of days in a member's contract. For most teachers, this is 185. Other employees could be 200, 225, 240, etc.
7. This will normally be the same salary as Number 5. However, if the member missed days without pay, this would be the salary earned for the actual days paid.
8. These are the days that are above the normal 185-day contract. A member with a 240-day contract would have 55 entered in this blank.
9. Daily rate calculated by dividing Number 5 by 185.
10. This represents Number 8 multiplied by Number 9.
11. Any additional salary earned by the member. This could include summer school, ESS, coaching, principal stipend, etc. **All additions must be itemized by position and the salary associated with each.**
12. Total salary earned for Number 11.
13. Total salary earned for the fiscal year.
14. Signature of the individual completing this section.
15. Title of the individual completing this section.
16. Telephone number of the individual completing this section.

**NOTE: Always keep a copy of the data submitted to KTRS for your records.**

### **Instructions for Completing Section VIII of the Retirement Application**

This section provides KTRS with the salary earned in the fiscal year in which the member is retiring. The information reported here is used to calculate the member's retirement benefit. In some cases this information will be provided prior to the member's last day of employment. Employers will complete the section as if the member will work all the days prior to their retirement date.

1. Full name of the member retiring.
2. Social security number of the member retiring.
3. Fiscal year for which the information applies.
4. Employing school district, agency, or university.
5. Number of days the member is required to work in their contract. Most teachers are 185 days. Administrators may be 200, 225, 240, etc.
6. Salary the member will receive for the entire fiscal year based on their contract days.
7. Member's daily rate. This is found by dividing the contract salary by the contract days. For agencies such as the Dept. of Education, please put the monthly salary.
8. Number of days the member will be paid prior to the retirement date.
9. Salary earned for the days worked.
10. Contributions withheld on the salary earned.
11. Number of days without pay **before** the retirement date.
12. Daily rate used for the calculation of sick leave payout. For employers in which the member earns service credit, please leave blank.
13. Percent of daily rate that is being used to calculate sick leave payout. For employers in which the member earns service credit, please leave blank.
14. Number of days or hours that member is receiving pay or service credit.
15. Salary being paid for unused sick days.
16. Contributions withheld on the sick leave payout.
17. Daily/hourly rate paid for each unused annual day.
18. Days/hours of annual leave being paid.
19. Salary receiving for annual leave days.
20. Contributions withheld on salary for annual leave days
21. Additional duties itemized.
22. Daily/hourly rate paid for additional duties. This is used only if the additional duties are not a fixed salary.
23. Days/hours for the additional duties. This is used only if the additional duties are not a fixed salary.
24. Total salary earned for additional duties.
25. Contributions withheld on salary for additional duties.
26. Total salary earned for the fiscal year.
27. Total contributions withheld for the fiscal year.
28. Initials of the person answering the question regarding a retirement incentive.
29. Last **actual** day of employment. This is very important since this date will be used to determine when a retiree's break in service for future employment begins.
30. Date the member's retirement will be effective. This date **must** match the date of retirement the member has placed in Section VI and **must** always be the first day of the month.
31. Date the application is completed by the employer.
32. Signature of the individual completing this section.
33. Title of the individual completing this section.

If any changes occur after the application has been submitted to KTRS, the employer should submit a "Corrected Copy" of Section VIII as soon as possible. This copy must have the date of the changes and the initials of the individual making the changes. All changes that occur must be notated. The employer may not just change the total salary and total contributions withheld. For example, if the days worked or sick days change, then the number in 8 or 14 should show the change.

## **SPECIAL RULES FOR AUGUST RETIREMENTS**

The employer **must** complete two Section VIII's. One provides KTRS with the salary information for the fiscal year just ended June 30. The other provides KTRS the salary earned in the month of July.

**NOTE: Always keep a copy of the data submitted to KTRS for your records.**